UNIT 12 CREDIT RATING

Objectives

After reading this unit, you will be able to :

- understand the meaning, scope, benefits and limitations of credit rating;
- explain the credit rating process;
- get an idea about the regulations of credit rating agencies and their business in India; and
- know about the profile of credit rating agencies in India and their rating symbols.

Structure

12.1 INTRODUCTION

Companies, financial institutions, public sector enterprises, local bodies and others raise funds from the domestic as well as international money or capital market by issuing debt instruments which are rated by the rating agencies. Investors also like to make their investment decisions based on credit rating of instruments.

Credit rating plays a significant role in all credit as well as investment decisions. Credit signifies status of ability to pay or reputation about solvency and capacity to pay. Rating is nothing but estimated worth or value in terms of symbolic grade given to a person's or organisation's ability to pay back the loans raised, with the help of financial position of the individual or organisation. By combining credit and rating, these two words, one can find out the meaning of credit rating, which is concerned with an act of assigning symbolic grade or values by estimating financial position and thus disclosing solvency which indicates ability or capacity of the issuer about the repayment of loans raised.

12.2 CONCEPT OF CREDIT RATING

Credit rating may be defined as an expression, through use of symbols, of opinion about the quality of credit of the issuer of debt securities with reference to a particular instrument. As per the SEBI regulations, credit rating is nothing but an

opinion regarding securities expressed in the form of standard symbol or in any other standardised form assigned by a credit rating agency. The symbol given by rating agency for credit rating indicates a credit character of that particular security and thus it only facilitates to take a view on credit risk pertaining to that security. However, it does not directly recommend whether to purchase, sale or hold that security. Thus, rating is a measure of credit risk only and hence it does not communicate anything about the degree of market risk.

Credit rating is considered predominantly in respect of debt instruments only. In addition to this, lenders like banks and non-banking finance companies use internally developed credit rating score models in assessing credit worthiness of their borrowers or depend on even rating agencies to get rating for the same. The companies which issue debt instruments cannot on their own rate instruments.

12.3 BENEFITS OF CREDIT RATING

The rating of debt instruments offer benefits to the interested parties such as investors, issuers and intermediary agencies like brokers etc. These benefits are described below :

Benefits to Investors

i) ***Safeguards against Bankruptcy:*** Credit rating of an instrument given by the credit rating agency gives an idea to the investors about the degree of financial strength of the issuer company which enables him to decide about investment. Highly rated instrument of a company gives an assurance to the investors of safety of their investment and the interest (or return) on their investments with least risk of bankruptcy.

ii) ***Recognition of Risk:*** Credit rating provides investors with rating symbols which carry information in easily recognisable manner for the benefit of investors to perceive risk involved in investment. It becomes easier for the investors by looking at the symbol to understand the worth of the issuer company because the instrument is rated by scientifically and professionally analysing the financial position of the company. In view of this, there is no need for the investors to incur cost for collecting credit information and to carry out analysis. The investors without any knowledge of financial analysis can easily use rating symbols for investment decisions.

iii) ***Credibility of Issuer:*** Rating symbol assigned to a debt instrument gives an idea about the credibility of the issuer company. The rating agency is quite independent of the issuer company and has no business connections or otherwise any relationship with it or its Board of Directors, etc. Due to absence of business links between the rating agency and the issuer company the confidence of investors is enhanced in such rating symbol.

iv) ***Rating Facilitates Quick Investment Decisions:*** Investor can take quick decisions about the investment to be made in various instruments with the help of credit rating assigned to various instruments. In view of this, there is no need for investors to undertake fundamental analysis of a company based on financial strength of the company, quality of management, as well as other parameters.

v) ***No Need to Depend on Investment Advisors or Professionals:*** For making investment decisions, investors with no knowledge of investment may have to seek advice of financial intermediaries such as, the stock brokers, the portfolio managers, or financial consultants while investing funds in debt

instruments. However, investors need not depend upon the advice of these financial intermediaries as the rating symbol assigned to a particular instrument suggests the credit worthiness of the instrument and indicates the degree of risk involved in it. Thus, investors can make direct investment decisions.

vi) ***Choice of Investment:*** Several alternative credit rated instruments are available at a particular point of time for deploying investible funds. The investors can make choice of various instruments depending upon their own risk profile and diversification plan.

vii) ***Benefits of Rating Surveillance:*** Investors get the benefit of credit rating agency's on-going surveillance of the rated instruments of different companies. The Credit Rating Agency downgrades the rating of any instrument if subsequently the company's financial performance is not so good or financial position has suffered because of happening of internal or external events which necessitates consequent dissemination of information on its position to the investors.

To sum up, credit rating of debt instruments helps the investors in managing credit risk in investment decisions.

Benefits of Credit Rating to Issuer Company

A company which has obtained credit rating from rating agency for its issue of debt security enjoys various advantages. Few of these advantages are given below :

i) ***Lower Cost of Borrowing:*** A company, whose debt instrument or public deposits programme, is highly rated, will be in a position to reduce the cost of borrowing by quoting lesser interest rate on fixed deposits or debentures or bonds as the investors will prefer low rate of interest because of lower credit risk.

ii) ***Wider Audience for Borrowing:*** A company having very good rating for its debt instrument can approach various categories of investors for resource mobilisation using the press media. Investors in different strata of the society could be attracted by higher rated instruments as the investors understand the degree of certainty about timely payment of interest and principal on a debt instrument with better rating.

iii) ***Rating as Marketing Tool:*** Companies with rated instruments improve their own image and can use credit rating as a marketing tool to create better image in dealing with its customers, lenders and other creditors. Even consumers feel confident in using products manufactured by the companies carrying higher rating for their credit instruments.

iv) ***Self Discipline by Companies:*** Rating encourages the companies to come out with more disclosures about their accounting system, financial reporting and management pattern, etc. The company gets opportunity and motivation to improve upon its existing practices to match to the competitive standard and maintain the standard of rating attained by it or make improvement upon the rating.

v) ***Reduction of Cost in Public Issues:*** A company with higher rated instrument is able to attract the investors and raise the funds with least efforts. Thus, the company whose debt instrument is highly rated can minimise cost of public issues by controlling expenses on media coverage, conferences and other marketing expenditures.

vi) ***Motivation for Growth:*** Rating provides motivation to the company for growth as the promoters of the company feel confident in their own efforts and are encouraged to undertake expansion of their existing operations or new projects. With better image created through higher credit rating the company can mobilise funds from the public and institutional lenders like banks and financial institutions.

Benefits to Financial Intermediaries

Highly credit rated instruments put the brokers at an advantage to make less efforts in studying the company's credit position to convince their clients to select a particular investment proposal. Rated instruments speak themselves about the financial soundness of the company and the strength of the instrument rated by the credit rating agency. This enables brokers and other financial intermediaries to save their time, cost, energy and manpower in convincing their clients about investments in any particular instruments. They utilise their resources in expanding their clientele and intensifying their business activities.

Other Benefits

The other benefits of credit rating in general are given below :

i) ***Identification of Strength and Weakness of the Issuer Company:*** A company having obtained the rating for its security understands its own strength and weakness in all spheres of corporate environment and can take corrective steps to improve upon its position and also remain guided by the surveillance efforts of the Credit Rating Agency. Particularly, companies with low credit rating make efforts to improve upon their performance. Thus, credit rating creates a tendency amongst rated corporate units to remain healthy and maintain higher standard for corporate governance which will help them to improve their standing both in domestic as well as in international market.

ii) ***Liquidity and Marketability of Debt Securities:*** Rated debt securities become easily marketable and thus attain the status of more liquid instruments. Credit rating symbols or grades set the market price range for the rated securities. The virtues of easy marketability and more liquidity of the instrument make it popular with the investors and the issuer company can ably sell the rated security with least cost.

iii) ***Positive Impact on Capital Market:*** Rated securities bring improvement in capital market and reflect upon its efficient functioning. Trading of rated securities in the secondary market becomes smooth and easy as it provides liquidity for such securities. This indirectly improves the primary market for such debt instruments having higher credit rating.

1.4 LIMITATIONS OF CREDIT RATING

While recognising the benefits of credit rating, it is necessary to keep in mind certain limitations of the credit rating. Few of these are explained below :

1) Biased Rating and Misrepresentations

In the absence of quality rating based on objectivity analysis credit rating is a curse for the capital market. To avoid biased rating or subjectivity in the credit rating process, executives working with Credit Rating Agency, who are involved in the process of credit rating, should have no links with the company or the persons

interested in the issuer company so that they can make their report impartial and judicious recommendations for rating committee. Again, rating committee members should also be impartial and judicious in their decision making.

The companies having lower grade rating do not advertise or use the rating while raising funds from the public. In such cases, the Credit Rating Agencies should themselves in the public interest, advertise the rating symbols assigned to such companies for public information and make the public aware of the poor financial position of such companies.

2) Static study

Rating is done on the basis of present and past data of the company and this is only a static study. Disclosure about the company's health through credit rating is one time exercise and any thing can happen after assignment of rating symbols to the company. Dependence for future results on the rating, therefore defeats the very purpose of risk indicativeness of rating. Subsequent to the allotment of credit rating many changes may take place in economic environment, political situation, government policy framework, etc. which may directly affect the working of a company. With such changes, the purpose for which credit rating was done gets defeated.

3) Concealment of material information

The company which has approached for credit rating may not provide all material information to the credit rating agency. In such cases, credit rating given by the credit rating agency may not reflect true picture of credit risk.

4) Rating is no guarantee for soundness of the company

Credit rating is done for a particular instrument to assess the credit risk. And therefore it cannot be construed as a rating for the quality of management of the company or its sound financial position.

5) Down grade

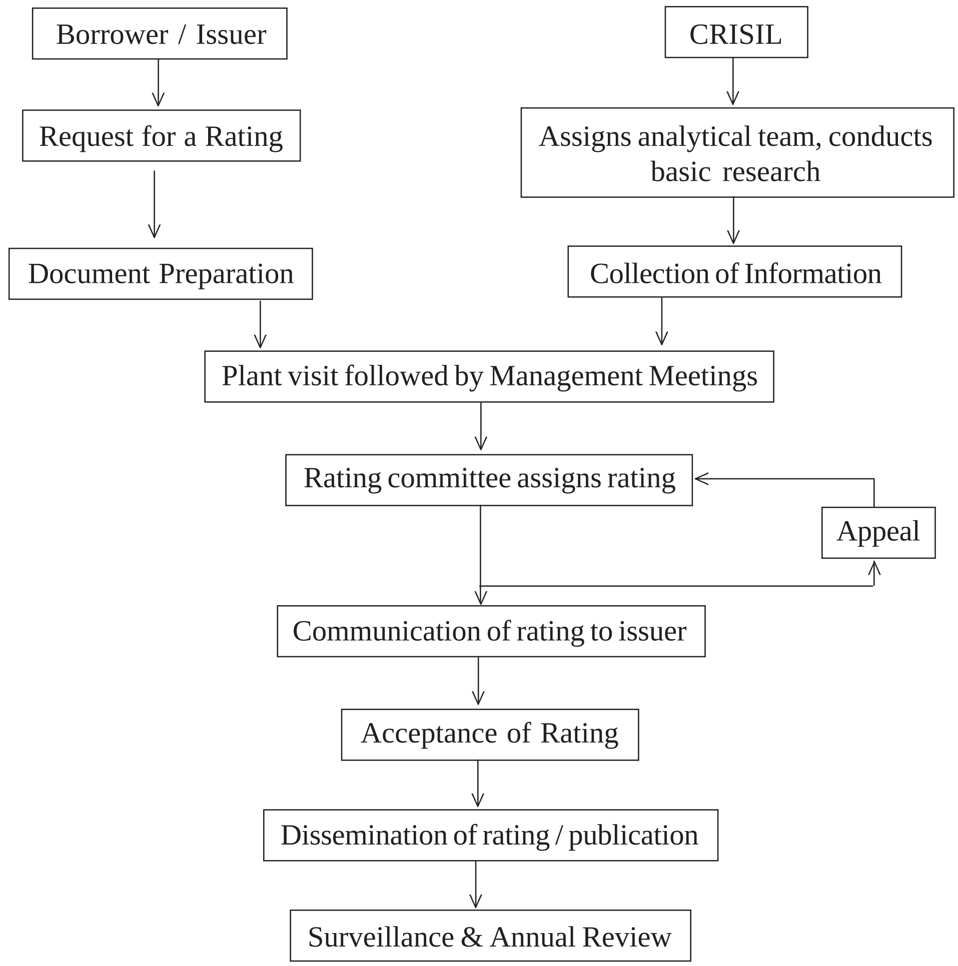
Once a company has been rated and if it is not able to maintain its satisfactory financial performance, credit rating agency would review the grade and down grade the rating resulting into impairing the image of the company.

Most of the limitations mentioned above can be overcome by taking precautions at every stage of credit rating process.

12.5 RATING PROCESS

The Rating process starts with a rating request from the issuer company followed by the signing of the rating agreement with the credit rating company which employs a multi-layered decision making process while giving a credit rating symbol. Credit rating agency sends its team of analysts to the issuer company who interacts with the company's management.

A detailed flow chart of CRISIL's rating process is as under*



* Taken from criteria published by CRISIL Ltd., Volume 1, September 2003

Meeting with Management Team

Rating agency's team will have an open dialogue with the management of issuer company. Only through this process interest of investors can be best served. The topics discussed during the meeting with management team are wide-ranging and include the issuer's competitive position, business strategies, short term and long term financial policies, current and past financial performance and future business outlook. Along with these parameters, equal importance need to be placed on the issuer's business risk profile.

Rating Committee and Assignment of the Rating

The reports prepared by a team of analysts is then submitted to a Rating Committee. The committee approach for assigning rating symbol ensures the rating's objectivity as the decision results from the collective analysis of a group comprising of highly experienced professionals. Based on the knowledge and expertise of the members of the rating committee, credit rating is decided and assigned accordingly. The rating is a composite assessment of all these factors with the key issues getting greater attention from the Rating Committee.

Confidentiality

A substantial portion of the information set forth in various documents of the issuer company is highly sensitive and is provided to the credit rating agency only for the

purpose of arriving at the ratings. The analysts and rating committee are required to maintain such information in strict confidence and not to use the same for any other purpose.

Advice to Issuer

When the rating committee has arrived at the rating decision, it is first communicated to the issuer and subsequently, the rationale for the rating is forwarded. In the event that the issuer disagrees with the rating it has the opportunity to appeal against the decision. Issuers appealing against a rating decision should provide new or additional information, which is material to the appeal and specifically addresses the concerns expressed in the rating rationale. The client of the credit rating agency has a right to reject the credit rating and the whole exercise is kept confidential.

Publication

Once a final rating is assigned and the issuer company has accepted the same, it is disseminated to the local and international news media. In addition, rating agency publishes credit rating as well as analysis thereof in their reports.

Information to SEBI

A credit rating agency has to inform SEBI about new rating instruments or symbols introduced by it.

Surveillance and Annual Review

After a credit rating has been assigned, credit rating agency has to monitor the issuer's on-going performance and the economic environment in which it operates. Surveillance enables analysts to stay abreast of current developments, identify potential problem areas of issuer company and be apprised of any changes in the issuer's business plan and operations. The credit analyst maintains periodic contact with the issuer company and ensures that financial and other information is regularly shared with a credit rating agency. It is normal practice to put all credit ratings under continuous surveillance even if there is no obvious reason to change the rating.

In some instances, a credit rating may be placed on "Rating Watch". A rating watch is nothing but analysing emerging situation, which is having material impact both positive and negative on the performance of issuer company. Following a full review, the credit rating may either be reaffirmed or changed. Instances where an entity's rating may be placed on rating watch include the announcement of a merger or acquisition or the occurrence of an event that could result in a substantial change in the issuing entity's risk profile.

Activity 1

State whether the following statements are true or false:

a) Credit rating activity is considered as fee-based financial service — True/False

b) Reserve Bank of India is a regulator for credit rating agencies as well as rating business. — True/False

c) Credit rating agencies must rate only debt instruments. — True/False

d) Once debt instrument is rated, it cannot be downgraded. — True/False

12.6 REGULATION OF CREDIT RATING AGENCIES IN INDIA

The credit rating agencies are regulated by SEBI. The relevant regulations of SEBI can be examined under the following heads :

1) Registration of Credit Rating Agencies
2) Promoter of Credit Rating Agency and Eligibility Criteria

1) **Registration of Credit Rating Agencies**

It is mandatory for credit rating agencies to have registration with SEBI and to obtain certificate of registration form SEBI. The certificate of registration shall be issued by SEBI subject to following conditions.

a) Credit rating agency would comply with the provisions of the SEBI Act, regulations and guidelines of SEBI, and instructions issued by SEBI from time to time on credit rating.
b) Where any information or particulars furnished to SEBI by a credit rating agency is found to be false or misleading or any particular material has undergone change subsequent to its furnishing at the time of application, it would immediately inform SEBI in writing.

The certificate of registration is valid for three years after which the same will have to be renewed by SEBI.

2) **Promoter of Credit Rating Agency and Eligibility Criteria**

Promoter of a Credit Rating Agency

A credit rating agency can be promoted by any of the following organisation or combination thereof.

a) Public financial institution as defined in section 4-A of the Companies Act of 1956,
b) Scheduled bank,
c) Foreign bank operating in India with the RBI approval,
d) Foreign credit rating agency having at least five years experience in rating securities, and
e) Any company incorporated under the Companies Act or body corporate having continuous minimum networth of Rs. 100 crore as per its audited annual accounts for the previous five years prior to filing of the application with SEBI for registration.

Eligibility Criteria

The credit rating agency

- is set up and registered as a company.
- has mentioned in its memorandum of Association credit rating activity as one of its main objects.
- has a minimum networth of Rs. 5 crore.
- is promoted by those who have professional competence, sound financial position, and who have acquired reputation of fairness and integrity in business transaction to the satisfaction of SEBI.
- has adequate staff having professional competence and experience to the satisfaction of SEBI.

12.7 RESTRICTION OF RATING OF SECURITIES

Securities issued by a promoter or promoters of a credit rating agency :

A credit rating agency is prohibited from rating securities issued by its promoter(s) who hold not less than 10 per cent of its shares. If the promoter of a credit rating agency is a lending institution its chairman or director/s or employees cannot hold a similar position in the credit rating agency or its rating committee.

Securities Issued by Certain Entities

The securities of an entity cannot be rated by a credit rating agency if it is (a) borrower of its promoter or (b) a subsidiary of its promoter or (c) an associate (a person holding at least 10 per cent of the share capital) of its promoter when there are common chairman/directors or employees to credit rating agency and these entities as well as on the rating committee of rating agency.

12.8 PROFILE OF CREDIT RATING AGENCIES IN INDIA

At present in India there are four credit rating agencies which rate debt instruments as well as corporates.

1) Credit Rating Information Services of India (CRISIL Ltd.). This is the first rating agency in India. It was set-up in 1987 jointly by the erstwhile ICICI Ltd. and UTI. Other shareholders include: Asian Development Bank (ADB), LIC, State Bank of India, and HDFC, etc. The CRISIL Ltd. is the world's fourth largest rating agency. The activities of CRISIL Ltd. are as under :

    - To provide credit rating service in respect of
        - Ratings of corporate debt issuances
        - Ratings of banks, non-banking finance companies
        - Ratings of borrowing programmes of governments and government bodies
        - Ratings of structured finance instruments
        - Ratings of micro-finance institutions
    - To provide analytical tools for management of risk such as market risk, credit and operational risk and valuation services
    - To undertake research on economy, industry and company performance and publish such reports
    - To provide corporate as well as market advisory services to corporate and non-corporate clients.

The CRISIL Ltd. has rated over 4700 debt instruments issued by 2200 companies.

2) Investment Information and Credit Rating Agency of India Ltd. (ICRA Ltd.) This company was promoted by the IFCI Ltd. to meet the requirements of the companies based in the north India. Along with IFCI, State Bank of India, Unit Trust of India, PNB and LIC were other promoters of the company. The objective of the ICRA Ltd. are as follows :

    - To rate rupee denominated debt instruments issued inter alia, by manufacturing companies, commercial banks, non-banking finance companies, financial institutions, public sector undertakings and local bodies, etc.

- To take-up assignments for credit assessment of companies/undertakings intending to use the same for obtaining specific line of assistance from commercial banks, financial institutions, non-bank financial services companies.
- It provides services of general assessment. At the request of banks or any other potential users, it prepares, as per their requirements, general assessment reports. It does not assign any specific symbols in respect of such general assessments. It provides a report on various aspects of the functioning of companies such as operations, quality of management etc.
- To undertake research based study reports to address the unique needs and requirements of an individual client. The assignments include (1) due diligence studies, (2) equity assessment/valuation, (3) industry analysis, and (4) market study etc.
- To offer advisory services to banks, finance companies, manufacturing companies, government, regulatory authorities and local bodies in the following areas:

  a) strategic consulting

  b) risk management

  c) inputs for policy formulation

CARE Ltd.

Credit Analysis and Research (CARE) Ltd. is a credit rating and information services company. This company was promoted by the Industrial Development Bank of India (IDBI) jointly with investment institutions, banks and finance companies. It commenced its credit rating operations in October 1993. The functions of CARE Ltd. are as under :

- to undertake credit rating of all types of debt instruments, both short term and long term.
- to make available information on any company, industry or sector required by a business enterprise.
- to undertake equity research study of listed or to be listed companies on the major stock exchanges.

Duff and Phelps Credit Rating (India) Private (DCR) Ltd.

This credit rating company was set-up in 1996. It was promoted by JM Financial and Alliance Group jointly with international rating agency Duff and Phelps. The activities of the company are as under :

- to undertake credit rating of debt instruments including rating of commercial papers.
- to evaluate company performance and give rating to them.
- to provide country rating.

12.9 RECENT DEVELOPMENTS

Equity Grading

The credit rating agencies in the developed countries like United States of America, United Kingdom and Japan rate not only the debt instruments but also the equity instruments. The share capital, which is raised through equity shares forms major portion of capital structure of corporates in the developed countries. Nowdays in

developing countries like India corporates also approach capital market to raise capital by way of issuing equity shares. The credit rating agencies in India are yet to develop rating mechanism for equity security. They have to initiate this process shortly.

Rating of Structured Obligations

The term structured obligation includes a variety of debt instruments, wherein re-payment of principal and interest is supported by cash flows from some financial assets and or the credit enhancement from a third party. The process of converting financial assets into tradeable securities is referred to as securitisation. The securitisation transaction involves the sale of receivable by the originator to a Special Purpose Vehicle (SPV) which is typically floated as a trust. It issues marketable securities, referred to as Pass Through Certificates (PTCs) to investors, the proceeds of which are paid as consideration to the originator. The credit ratings play a very important role in the flotation of structured debt instruments. Such instruments are rated on the basis of credit risk, structural risk and legal risk.

Utility Ratings

As an aftermath of the economic reforms, public utilities in India are approaching the capital market to finance their projects. The rating methodology for public utilities are regulated by the Central and State Governments. A number of power projects, State Electricity Boards and Telecom enterprises have got rated under this system.

An overview of the rating methodology concerning utility rating point out that it covers in its ambit assessment of project concept and configuration, sponsor's credentials, project risks financial risks, regulatory and policy environment, market analysis and operational performance.

Sovereign Ratings and Municipal Bonds

Credit rating has transcended from rating business enterprises to sovereign ratings issued by the international credit rating agencies which provide signals about the creditworthiness of the borrowing countries to their international creditors. The sovereign ratings are not an evaluation of the creditworthiness of the foreign governments. They provide long term assessment of the capability of such borrowers with regard to access to adequate foreign currencies to meet the total foreign loan incurred both by the Government as well as business enterprises to such countries. Initially, very much an American affair, the rating of municipal bonds has helped municipalities to take recourse to raise funds in the open market. In India, the municipalities of Vijayawada and Ahmedabad have raised funds through the credit rated bonds. The municipalities require huge funds for infrastructure development. In view of this, the municipal administration in India would have to depend more and more on non-traditional sources of finance.

Credit Rating of Non-Banking Finance Companies

The Reserve Bank of India in its recent measure of tightening its control over NBFCs have made it mandatory on them to get their debt instruments including fixed deposit schemes rated from credit rating agencies. The rating methodology for the NBFCs includes an assessment of their operating, financial and management risks.

12.10 SUMMARY

Credit rating is a technique of rating the borrower's expected capability and worth or reputation of solvency and ability and inclination of pay back the principal duty and interest when the obligation falls due. Credit rating is only a risk evaluation of a credit

assignment and presently the debt instruments rated include debentures, fixed deposits and commercial papers. It is highly useful to investors, issuers, intermediaries and regulators. A number of factors contribute to the success of credit rating. The most dominating factor is the reputation and analytical credibility of the credit rating agency. Credit rating is an interactive process which involves a number of steps on the basis of assessment on which rating is assigned. Such rating, which is expressed in symbols, is subject to an upward or downward change. The recent developments in credit rating have brought in its fold the rating of equity, structured obligations, utilities, sovereign and municipalities. In India, credit rating business is regulated by SEBI. Four credit rated agencies recognised by SEBI have been operating in India.

12.11 SELF ASSESSMENT QUESTIONS

1) What do you mean by Credit Rating ?
2) Explain the benefits of Credit Rating.
3) Are there any limitations of credit rating ? If yes, explain various limitations.
4) Explain the process of credit rating.
5) How the credit rating agencies are being regulated in India ?
6) a) Who can form a credit rating agency ?
   b) What are the eligibility criteria for setting up of a credit rating agency ?
7) Are there any restrictions on rating of securities ? If yes, explain the same.
8) Write short notes on :
   1) Activities of CRISIL Ltd.
   2) Registration of Credit Rating Agency
   3) Rating symbols for short term debt instruments

12.12 FURTHER READINGS

J.C. Varma, *Credit Rating*, Bharat Publishing House, New Delhi (latest edition).

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Rating Criteria : *Rating Methodology and Benchmarks*, CRISIL Publication, Volume 1, September 2003.

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Prasanna Chandra, *Financial Management*, Tata McGraw Hill, New Delhi (latest edition).

Kalpan, R. and Urwitz, G. 1979, "*Structural Methods of Bond Ratings : A Methodological Enquiry*", Journal of Business 52 (No. 2), 231-61

Rating Symbols

Rating symbols are used in terms of alphabets. For preference shares the letters 'pf' are prefixed to the debenture rating symbols and 'f' prefixed for fixed deposits while 'P' (prime) is prefixed to short-term instruments.

CRISIL Debenture Rating Symbols

a) **High Investment Grades**

AAA (triple A)	Highest Safety – on timely payment of interest and principal.
AA (double A)	High Safety – regarding timely payment of interest and principal. This symbol shows minor variation from triple A.

b) **Investment Grades**

A	Adequate safety – regarding timely payment of interest and principal subject to adverse impact arising out of changed circumstances.
BBB (triple B)	Moderate safety – regarding timely payment of interest and principal subject to variations caused by changing circumstances weakening the capacity.

c) **Speculative Grades**

BB (double B)	Inadequate safety – regarding payment of interest and principal due to the comparative uncertainties faced by the issuer.
B	High risk – susceptible to default in payment of principal and interest due to adverse business or economic conditions affecting the issuer.
C	Substantial risk – Due to the presence of factors which make the issue vulnerable to default if unfavourable circumstances develop.
D	Default – default likely in payment of interest and maturity amount. Such debentures are extremely speculative and returns from them can be realised only on reorganisation or liquidation.

CRISIL has decided to include a new rating category called "not meaningful" (NM) for companies which have been referred to the Bureau for Industrial and Financial Reconstruction (BIFR).

Note : CRISIL may apply + (plus) or – (minus) signs for rating from AA to D to reflect comparative standing on a better or worse scale within the category.

CRISIL Fixed Deposit Rating Symbols

FAAA (F triple A)	Highest safety – indicates the degree of safety regarding timely payment of interest and principal is very strong.

FAA (F double A)	High safety – indicates the degree of safety regarding timely payment of interest and principal is strong.
FA	Adequate safety – indicates the degree of safety regarding timely payment of interest and principal is satisfactory. Changes in circumstances can affect such issues more than those in the higher rated categories.
FB	Inadequate safety – indicates inadequate safety of timely payment of interest and principal. Such issues are less susceptible to default than fixed deposits rating below this category, but the uncertainties that the issuer faces could lead to inadequate capacity to make timely interest and principal payments.
FC	High risk – indicates the degree of safety regarding timely payment of interest and principal is doubtful. Such issues have factors at present that make them vulnerable to default; adverse business or economic conditions would lead to lack of ability or willingness to pay interest or principal.
FD	Default – indicates the issuer is either in default or is expected to be in default upon maturity.

Note : CRISIL may apply + (plus) or – (minus) signs for rating from FAA to FC to indicate the relative position within the rating category of the company raising fixed deposits.

CRISIL'S Rating for Short Term Instruments

P-1	This rating indicates that the degree of safety regarding timely payment on the instrument is very strong.
P-2	This rating indicates that the degree of safety regarding timely payment on the instrument is strong.
P-3	This rating indicates that the degree of safety regarding timely payment on the instrument is adequate, however, the instrument is more vulnerable to the adverse effects changing circumstances than an instrument rated in the two higher categories.
P-4	This rating indicates that the degree of safety regarding timely payment on the instrument is minimal and it is likely to be adversely affected by short-term adversity or less favourable conditions.
P-5	This rating indicates that the instrument is expected to be in default on maturity or is in default.

Note : CRISIL may apply + (plus) sign for rating from P-1 to P-3 to reflect a comparatively higher standing within the category.

CRISIL'S Rating Symbols for Structured Obligations (SO)

Structured obligations ratings are based on the same scale (AAA to D) as CRISIL rating for long term instruments. However, reflecting the distinction of structured obligations from a debt instrument, structured obligations rating symbols are defined differently.

1) High Investment Grades

AAA (SO) (Triple A) – Highest Safety – This rating indicates highest degree of certainty regarding timely payment of financial obligations on the instruments. Any adverse changes in circumstances are most likely to affect the payments on the instruments.

AA (SO) (Double A) – High safety – This rating indicates highest degree of certainty regarding timely payment of financial obligations on the instrument.

2) Investment Grades

A (SO) – Adequate Safety – This rating indicates adequate degree of certainty regarding timely payment of financial obligations on the instrument. Changes in circumstances can adversely affect such instruments more than those in the higher rated categories.

BBB (SO) (Triple B) – Moderate Safety – This rating indicates moderate degree of certainty regarding timely payment of financial obligations on the instrument. However, changing circumstances are more likely to lead to a weakened capacity to meet financial obligations than for instruments in higher rated categories.

3) Speculative Grades

BB (SO) (Double B) – Inadequate Safety – This rating indicates inadequate degree of certainty regarding timely payment of financial obligations on the instrument. Such instruments are less susceptible to default than instruments rated below this category.

B (SO) – High Risk – This rating indicates high risk and greater susceptiability to default. Any adverse business or economic conditions would lead to lack of capability of willingness to meet financial obligations on time.

C (SO) – Substantial Risk – This rating indicates that the degree of certainty regarding timely payment of financial obligations in doubtful unless circumstances are favourable.

D (SO) – Default – This rating indicates that the obligor is in default or expected to be in default.

Note : CRISIL may apply + (plus) sign for rating from AA to C to reflect a comparatively higher standing within the category.

Rating Symbols of ICRA (Investment Information and Credit Rating Agency of India Ltd.)

a) Long term including debentures, bonds and preference shares

LAAA	Highest Safety – indicates fundamentally strong position. Risk factors are negligible. There may be circumstances adversely affecting the degree of safety but such circumstances, as may be visualised, are not likely to affect the timely payment of principal and interest as per terms.

LAA	High Safety – Risk factors are modest and may vary slightly. The protective factors are strong and the prospect of timely payment of principal and interest as per terms under adverse circumstances, as may be visualised, differs from 'LAA' only marginally.
LA	Adequate Safety – Risk factors are more variable and greater in periods of economic stress. The protective factors are average and any adverse change in circumstances, as may be visualised, may alter the fundamental as per terms.
LBBB	Moderate Safety – Considerable variable in risk factors. The protective factors are below average. Adverse changes in business/economic circumstances are likely to affect the timely payment of principal and interest as per terms.
LBB	Inadequate Safety – The timely payment of interest and principal are more likely to be affected by present or prospective changes in business/economic circumstances. The protective factors fluctuate in case of changes in economy/business conditions.
LB	Risk Prone – Risk factors indicate that obligations may not be met when due. The protective factors are narrow. Adverse changes in business/economic conditions could result in liability/unwillingness to service debts on time as per terms.
LC	Substantial Risk – There are inherent elements of risk and timely servicing of debts/obligations could be possible only in case of continued existence of favourable circumstances.
LD	Default – Extremely speculative. Either already in default in payment of interest and/or principal as per terms or expected to default. Recovery is likely only in liquidation or re-organisation.

b) Medium-term including fixed deposits

MAAA	High Safety – The prospect of timely servicing of the interest and principal as per terms is the best.
MAA	High Safety – The prospect of timely servicing of the interest and principal as per terms is high.
MA	Adequate Safety – the prospect of timely servicing of the interest and principal is adequate. However debt servicing may be affected by adverse changes in the business/economic conditions.
MB	Inadequate Safety – The timely payment of interest and principal are more likely to be affected by future uncertainties.

MC	Risk Prone – Susceptibility to default high. Adverse changes in business/economic conditions could result in inability/unwillingness to service debts on time as per terms.
MD	Default – Either already in default or expected to default or expected to default.

(c) Short-term debt including commercial paper

A-1	Highest Safety – The prospect of timely payment of debt/obligation is the best.
A-2	High Safety – The relative safety is marginally lower than in 'A-1' rating.
A-3	Adequate Safety – The prospect of timely payment of interest and instalment is adequate, but any adverse change in business/economic conditions may affect the fundamental strength.
A-4	Risk prone – The degree of safety is low. Likely to default in case of adverse changes in business/ economic conditions.
A-5	Default – Either already in default or expected to default.

Note : The suffix of + (plus) sign or – (minus) may be used with the rating symbol to indicate the comparative position within the group covered by the symbol.

CREDIT ANALYSIS AND RESEARCH LTD'S (CARE) SYMBOLS FOR CREDIT RATING

Long-term and Medium-term Instruments

CARE AAA CARE AAA(FD)/ (CD)/(SO)/CCPS	Instruments carrying this rating are considered to be of the best quality, carrying negligible investment risk. Debt service payments are protected by stable cash flows, with good margin. While the underlying assumptions may change, such changes as can be visualised are most unlikely to impair the strong position of such instruments.
CARE AAA CARE AAA(FD)/ (CD)/(SO)/CCPS	Instruments carrying this rating are judged to be of high quality by all standards. They are also classified as high investment grade. They are rated lower than CARE AAA securities because of somewhat lower margins of protection. Changes in assumptions may have a greater impact or the long-term risks may be somewhat larger. Overall, the difference with CARE AAA rated securities is marginal.
CARE A CARE A(FD)/ (CD)/(SO)/CCPS	Instruments carrying this rating are considered upper medium grade instruments and have many favourable investment attributes. Safety for principal and interest are considered adequate. Assumptions that do not materialise may have a greater impact as compared to the instruments rated higher.

CARE BBB CARE BBB(FD)/ (CD)/(SO)/CCPS	Such instruments are considered to be of investment grade. They indicate sufficient safety for payment of interest and principal, at the time of rating. However, adverse changes in assumptions are more likely to weaken the debt servicing capability compared to the higher rated instruments.
CARE BB CARE BB (FD)/ (CD)/(SO)/CCPS	Such instruments are considered to be speculative within adequate protection for interest and principal payments.
CARE B CARE B (FD)/ (CD)/(SO)/CCPS	Instruments with such rating are generally classified susceptible to default. While interest and principal payment are being met, adverse changes in business conditions are likely to lead to default.
CARE C CARE C(FD)/ (CD)/(SO)/CCPS	Such instruments carry high investment risk with likelihood of default in the payment of interest and principal.
CARE D CARE D (FD)/ (CD)/(SO)/CCPS	Such instruments are of the lowest category. They are either in default or are likely to be in default soon.

Short-term Instruments

PR 1	Instruments would have superior capacity for repayment of short-term promissory obligations. Issuers of such instruments will normally be characterised by leading market positions in established industries, high rates of return on funds employed, etc.
PR2	Instruments would have strong capacity for repayment of short-term promissory obligations. Issues would have most of the characteristics as for those with PR1.
PR3	Instruments have an adequate capacity for repayment of short-term promissory obligations. The effect of industry characteristics and market composition may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection.
PR4	Instruments have minimal degree of safety regarding timely payment of short-term promissory obligations and the safety is likely to be adversely affected by short-term adversity of less favourable conditions.
PR5	The instrument is in default or is likely to be in default on maturity.

Credit Analysis Rating

CARE 1	Excellent debt management capacity. Such companies will normally be characterised leaders in the respective industries.
CARE 2	Very good debt management capability. Such companies would normally be regarded as close to those rated CARE 1 but with a lower capability to withstand changes in assumptions.
CARE 3	Good capability for debt management. Such companies are considered medium grade; assumptions that do not materialise may impair debt management capability in future.
CARE 4	Barely satisfactory capability for debt management. The capacity to meet obligations is likely to be adversely affected by short-term adversity or less favourable conditions.

CARE 5 Poor capability for debt management. Such companies are in default or are likely to default in meeting their debt management.

As instrument characteristics or debt management capability could cover a wide range of possible attributes whereas rating is expressed only in limited number of symbols, CARE assigns '+' or signs to be shown after the assigned rating (wherever necessary) to indicate the

Long-Term Loans

CARE AAA (L) Loans carrying this rating are considered to be of the best quality, carrying negligible investment risk. Debt service payments are protected by stable cash flows with good margin. While the underlying assumptions may change, such changes as can be visualised are most unlikely to impair the strong position of such loans.

CARE AAA (L) Loans carrying this rating are judged to be of high quality by all standards. They are also classified as high investment grade. They are rated lower than CARE AAA loans because of somewhat lower margins of protection. Changes in assumptions may have a greater impact or the long-term risks may be somewhat larger. Overall, the difference with CARE AAA rated loans is marginal.

CARE A (L) Loans with this rating are considered upper medium grade and have many favourable investment attributes. Safety for principal and interest are considered adequate. Assumptions that do not materialise may have a greater impact as compared to the loans rated higher.

CARE BBB (L) Such loans are considered to be of investment grade. They indicate sufficient safety for payment of interest and principal, at the time of rating. However, adverse changes in assumptions are more likely to weaken the debt servicing capability compared to the higher rated loans.

CARE BB (L) Such loans are considered to be speculative, with inadequate protection for interest and principal payments.

CARE B (l) Loans with such ratings are generally classified susceptible to default. While interest and principal payments are being met, adverse changes in business conditions are likely to lead to default.

CARE C (L) Such loans carry high investment risk with likelihood of default in the payment of interest and principal.

CARE D (L) Such loans are of the lowest category. They are either in default or are likely to be in default soon.

As loan characteristics or debt management capability could cover a wide range of possible attributes whereas rating is express only in limited number of symbols CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Short Term Loans

PL-1 Superior capacity for repayment of interest and principal on the loan.

PL-2 Strong capacity for repayment of interest and principal on the loan. They are rated lower than PL-1 because of somewhat lower margins of protection. Changes in assumptions may have a greater impact.

PL-3 Adequate capacity for repayment of interest and principal on the loan. Variability in earnings and profitability may result in significant changes in the level of debt servicing capability. The effect of industry characteristics may be more pronounced.

PL-4 Minimal degree of safety regarding timely payment of interest and principal and the safety is likely to be adversely affected by short-term adversity or less favourable conditions.

PL-5 The loan is in default or is likely to be in default on maturity.

As loan characteristics or debt management capability could cover a wide range of possible attributes whereas rating is expressed only in limited number of symbols, CARE assigns '+' or '-' signs to be shown after the assigned rating (wherever necessary) to indicate the relative position within the band covered by the rating symbol.

Following is the summary of rating symbols used by CARE:

A) Long term and medium-term instruments

	Grade	*For Debenture/bonds*				*For FD's/CD/SO*
1)	High Investment	CARE	AAA	CARE	AAA	(FD/CD/SO/CCPS)
	CARE	AA	CARE	AAA	(FD/CD/SO/CCPS)	
2)	Investment Grade	CARE	A	CARE	A	(FD/CD/SO/CCPS)
		CARE	BBB	CARE	BBB	(FD/CD/SO/CCPS)
3)	Speculative	CARE	BB	CARE	B	(FD/CD/SO/CCPS)
		CARE	B	CARE	B	(FD/CD/SO/CCPS)
4)	Poor Grade	CARE	C	CARE	C	(FD/CD/SO/CCPS)
		CARE	D	CARE	D	(FD/CD/SO/CCPS)

Wherein FD means fixed deposits, CD means Certificate of deposits and SO means structured obligations and CCPS means consultative convertible preference shares.

B) Short-term instruments

Grade	Commercial Papers
High Investment	PR-1
	PR-2
Investment	PR-3
Speculative	PR-4
Poor	PR-5